

STATE OF THE STATE
JANUARY 18, 2010

Mr. Speaker, Governor Bryant, members of the Legislature, distinguished guests and fellow Mississippians:

For the seventh time I'm honored to come before you to share my view of the State of our State. I appreciate your inviting me, and I appreciate Mississippi Public Broadcasting and its presenters for telecasting tonight's speech live, again for the seventh time.

Welcome back to all you legislators who had to go home early the last two weeks during the severely cold weather and the water system problems. We're glad you all made it back to Jackson safe and sound, but I have to tell you: This global warming is about to freeze me to death!

Know I genuinely appreciate your warm welcome of Marsha. I'm biased, but I promise you I could never have a stronger, better First Lady who loves our State and works hard for it. A little tidbit: While to me she's still the beautiful college girl I met in 1968, last week, by God's grace, Marsha became a grandmama again . . . for the fourth time.

At the beginning of my speech I want to recognize Major General Bill Freeman, our Adjutant General, as a way to honor and praise the men and women of the Mississippi National Guard.

Today we have nearly four thousand guardsmen in Iraq and Afghanistan, fighting for our freedom in the War on Terror. For many, like our largest guard unit, the 155th Brigade Combat Team, this is the second tour; for some others, even more. Marsha and I ask your prayers as well as your praise for these soldiers and airmen and their families.

Additionally our Air Guard is flying missions every week to the combat zone. And last week a Mississippi Air National Guard C-17 was among the first plane to deliver life-saving, relief supplies into Port-au-Prince for the people of Haiti.

Remembering how good people were to us after Katrina, we continue to do everything we can to help the people of Haiti. Please remember them in your prayers, too.

Marsha joins me in thanking you for what Speaker McCoy called the best first day of a Legislature in the thirty-one years he's been a member. I'm grateful to the Lieutenant Governor and Speaker and to Chairmen Watson and Kirby and all the other leadership for passing the package to bring Schulz, GMBH, to Tunica County, where this German company will invest \$300 million and employ 500 people in very sophisticated manufacturing of advanced steel products for the energy industry.

Like General Electric in Batesville and ATK in Tishomingo County, both of which recently announced expansions and increased employment, Schulz manufactures advanced products made with advanced materials using advanced technologies and processes. Of course, this is just what we want more of . . . because it puts Mississippi workers on the front lines of innovative technologies and advanced manufacturing.

I thank you for recognizing that, during a global recession, when Mississippi competes for a project like Schulz, which was sought by about 300 counties nationwide, and MDA and our local leaders succeed in winning the competition, it behooves us all to move quickly and decisively.

On the same day as Schulz, you revised and reauthorized the Workforce Enhancement Training Fund. I congratulate you again and thank Chairmen Watson, Straughter and Kirby. Originally passed in 2005, this so-called WET Fund provides more than \$20 million a year to our community colleges for workforce development and job training, under a program created by the State Workforce Investment Board and the Department of Employment Security that features strong accountability and has produced terrific results. Those who have been trained with WET fund dollars earn \$4,300 more per year than before their training.

Some think workforce skills training is something we do for employers, to attract industries and jobs. That's true, but that's only part of it. I believe workforce development and skills training are something we owe our working people . . . to help them increase their wages and get better benefits. Sometimes more skills lead to new, better jobs, but most of the time, this training is needed to keep the current job or get a promotion.

And it works. Although 2009 numbers aren't in yet, from 2004 through 2008 per capita income in Mississippi rose by 27%, one of the larger increases in the country. A lot of that came from replacing lower skilled, lower paying jobs with higher skilled, better paying jobs.

Your passage of the WET Fund reauthorization means we'll be able to keep doing more of that . . . which lets American Eurocopter at Columbus add sixty-four jobs and expand to build every year sixty more light utility helicopters for the Army. It complements our Shipbuilding Academy to help find new workers and upgrade the skills of current workers for our shipbuilders on the Coast and for our energy industry.

And our energy industry is both growing and critical to Mississippi's future.

Mississippi Power's \$2.2 billion Kemper County electric plant will be a national pacesetter. It will take Mississippi lignite, convert it to synthetic gas, burn it to generate electricity and then capture the carbon dioxide and sell it for use in enhanced oil recovery. This gives value to indigenous, local lignite coal; it provides many jobs in the construction phase; it gives Mississippi Power customer's stable, affordable base-load electric rates for decades to come; it will be the first commercial-scale example of carbon capture and sequestration in America. It's a home run for Mississippi.

Entergy has announced a \$510 million expansion of its Grand Gulf One nuclear unit. It will increase the plant's output by some 13 percent, again providing more, stable, low cost, base load power to customers, while providing good jobs and paying more taxes; and nuclear ... the big, green, clean energy machine ... emits no greenhouse gases.

South Mississippi Electric Power is in the middle of a \$500 million series of upgrades to improve service for members of our rural electric power associations.

Chevron in Pascagoula is completing several hundred million dollars of upgrades that have increased its output of refined gasoline product by ten percent, while using no more crude oil.

Next door to Chevron, Gulf LNG is approaching completion of its \$1.1 billion liquefied natural gas terminal in Jackson County. It will further enhance our state's standing as a reliable energy state.

In fact, Mississippi is one of the few states where petroleum production went up over the last several years. Companies like Denbury Resources, which has invested \$1.5 billion in tertiary recovery projects using CO₂, and Tellus, our largest independent producer, continue to use advanced technologies to produce Mississippi oil and gas for America.

Ergon and Bunge's facility at Vicksburg supplies sixty million gallons of ethanol a year, and Scott Petroleum has a fully operationally bio-diesel plant in Washington County.

And there is much more to come.

You will remember Rentech, which is to build a \$3 Billion-plus coal-to-liquid fuels plant at Natchez. In mid-December, Rentech announced an agreement as a prelude to its provision of certified jet fuel – made from coal and produced in Adams County – to thirteen domestic and international passenger and cargo carriers.

Also, Mississippi Gasification, Inc., has been selected by the United States Department of Energy for a \$1.7 billion guaranteed loan to build a synthetic natural gas plant at Moss Point. The company will buy pet coke, a low value by-product of the refining process, and convert it to syn-gas. This will provide a stable price for natural gas, the price of which has been very volatile in recent years, and will create a much higher use for pet coke, keeping the energy in Mississippi.

Enerkem, a Canadian company, has received a \$50 million federal grant to build a waste-to-energy facility in Pontotoc, using municipal and other waste to generate electricity. And Bluefire Ethanol, a company based in California, has been awarded \$88 million in grants to build a \$300 million cellulosic ethanol biorefinery in Fulton using wood waste and municipal waste. These are 2 of only 19 renewable energy projects in the U.S. receiving grant awards from the US Department of Energy.

Experts confirm Mississippi is a prime focus of the bio fuels energy industry because of our large supply of wood products and a proven capacity to grow feedstock crops for cellulosic ethanol and similar fuels.

As long as I'm Governor, Mississippi will have an energy policy; and it's more affordable, American energy.
(PAUSE)

Both improving the skills of our workforce and being a reliable energy state are critical to job creation in Mississippi now and for many years to come.

When Toyota or GE talks about why it chose our state, the first thing cited is the quality of our workforce. It is number one, and we have to make sure we have enough high quality, skilled workers who can be trained for the next expansion or the next ten new industries.

Our workforce has gained tremendous respect nationally and internationally over the last few years, and we have to continue to fill the pipeline of good workers, ready to be trained for the job-specific skills. We must never let that pipeline of workers run out, or be perceived as running out.

I spent the first part of my speech tonight talking about job creation because Mississippi families know job creation is the most important thing needed to help them, their businesses and our state.

More people working means more income for those families who were personally hit by this global recession. It means more revenue for our small and middle sized businesses, the backbone of our economy, and of the nation's economy, too.

And here in state government, job creation means more taxpayers with more taxable income. Indeed, most of the difficult budget issues facing us this session and for another year or two after that, directly result from job losses and the recession that led to them.

So I hope you think it appropriate that I would speak to you first about job creation, my top priority, and that I believe should be our country's top priority, too.

Still, we cannot be together on this occasion, early in the Twenty-Ten Legislative Session, without focusing on the difficult fiscal challenges we face, together.

I emphasize "together" because it will be hard enough to resolve the budget dilemma if we do work together.

We may not agree on everything, and don't have to. We do have to be honest with each other and our constituents about the facts and the situations we face; and honest about the options we have.

As I've said several times over the last month or so, I have felt like the leadership – bicameral and bipartisan – recognizes we have tough choices and are open to new ideas. I appreciate that, and our citizens need it. I'm committed to working with you.

We know we must have a balanced budget, and it appears to me there is no appetite for tax increases.

I agree. In a recession, when our businesses and families are hard pressed and their incomes are down, the last thing we should do is further reduce their incomes by raising taxes.

The Joint Legislative Budget Committee's Budget Recommendation called for record savings, and left no sacred cows untouched. While the cuts were not quite the same as those in my budget recommendation, the Committee made plain that in FY 2011 it can't be business as usual with state spending. I applaud the Legislative Budget Committee, and I pledge to work with you and the LBO staff to fashion the best budget that lives within our means.

Of course, we don't agree on everything. I strongly believe the State's Rainy Day Fund – the Working Cash Stabilization Fund – must last three more years and that only one-third of the balance – or \$78 million – should be appropriated this session for FY 11. I feel that way even more strongly because, as you were advised by State Treasurer Tate Reeves recently, our annual tobacco payment went down by \$10 million compared to the previous year. And of course, both the LBR and my budget have to be adjusted down to show that and other reductions in available revenue.

I consider one of the worst mistakes that can be made at a time like this would be the excessive use of one-time money. Of course, the appropriations for the year we're in right now – FY 10 – and those for next year do and will contain huge amounts of federal stimulus money that the following fiscal year will go away, evaporate under current federal law. About \$150 million is scheduled to be gone on December 31, halfway through FY 11, and about twice as much - \$350 million – on June 30 of next year.

We have to carefully work around these funds ... using them productively but knowing and planning how to budget and spend when these funds are gone.

These enormous amounts of disappearing federal funds mean FY 2012, the budget you must deal with next legislative session, during the election year, may be even tougher than this one. Again, because of all this I urge you to be prudent and conservative ... to err on the side of less spending, lest you make next year even worse.

My budget and the LBR have some differences in the amount of revenue we'll have available to appropriate, and that was even before the \$10 million decline in the tobacco payment.

For one, the Legislative Budget Committee recommends spending down \$35 million from the tobacco trust fund. For our public viewers, this is separate from the money spent from the annual payment, which we get every year. This \$35 million in the LBR would actually be taken from the balance of the existing trust fund.

Since I've been Governor, it has become clear to me this trust fund -the Health Care Trust Fund, as it is officially known – is not and never will be held in trust in the true sense of the word. It will never build up since the interest or earnings are not large enough to be material in future budgets. So, while I didn't propose it, if it is the will of the Legislature, I will agree to spending down the balance of the existing fund, as long as it is done on a schedule of equal payments over a period of at least four years.

On the other hand, I do not support the idea of a tax amnesty. First of all, the overwhelming majority of Mississippians faithfully pay their taxes every year. Those taxpayers deserve for us to make every effort to collect the taxes owed by people or companies that aren't paying as they are supposed to.

The State had a tax amnesty in 2004. It produced about \$9 million in extra revenue. Let me suggest ... if you have a tax amnesty every 4, 5 or 6 years, as is proposed by the LBR ... tax cheating will get worse, as some will figure they can beat the system by not paying, and not getting caught before the next tax amnesty.

My budget calls for no tax amnesty but instead a small increase in the Tax Commission budget for collecting unpaid taxes owed the state, that should produce as much money every year as the tax amnesty would produce just once. Let's not undermine tax compliance or be unfaithful to faithful taxpayers. Let's collect the unpaid taxes our state is already owed.

There is also a proposal to raid the Hurricane Disaster Reserve Fund. This fund is there to pay matching funds that we owe the federal government for \$400 million of hazard mitigation expenditures in South Mississippi. For three years we have tried to get FEMA to accept in kind payment of the nearly \$100 million we owe them. They have not agreed, so spending any of the Hurricane Disaster Reserve for any purpose other than this federal match would be unacceptable. That's why this money must stay where it is.

When we look at state revenue for the first six months of the current fiscal year ... July through December of 2009 ... it was 8.1% below the level on which this year's budget was based.

Since the decline steepened in December, I see no reason to expect any improvement in revenue for FY 10.

If you figure revenue gets no worse, but stays at minus 8.1% for the rest of this fiscal year, the shortfall in revenue for the General Fund and equivalents will be about \$437 million for the entire year.

Just a few months ago we estimated the shortfall would be \$371 million, but an 8.1% shortfall would be \$437 million, and I frankly fear it may be worse.

For the budget year we'll pass this session . . . the budget for Fiscal Year 2011, beginning July 1 . . . the revenue estimating committee will give you revised figures in March or so, so you'll have updated information on expected tax collections before you have to vote on the FY11 budget.

However, for this Fiscal year . . . 2010 . . . spending reductions must be made now to get our budget back into balance.

By state law the Governor is required to make cuts to appropriated spending sufficient to align spending with actual revenue.

You may recall that I cut about \$226 million in state spending last Fall. Another \$211 million must be cut, based on an 8.1% revenue shortfall.

The Attorney General has issued an opinion that says only debt service is exempt from the current law that limits the Governor's discretion in spending cuts.

That law says the Governor can cut any department, agency or line by up to 5%, but can't cut any account by more than 5%, until every department and agency had been cut by 5% . . . except debt service.

Then the law goes on to say, any cuts above 5% must be the same for every department and agency with no exemption but debt service.

I have asked you to change that law to allow the Governor the flexibility to cut departments and agencies up to 10%.

The Senate has passed such a bill, though it limits the Governor's discretion to just this year, ending at Sine Die, which is fine with me.

I suggest you will want to give the Governor this flexibility next year for the same reasons, but there is no reason to have to deal with that now.

Because department and agencies, especially education, need to know as soon as possible what size cuts they must make, I ask and urge the House to pass this 10% flexibility bill.

If not, every department and agency will be cut about 8.1%; including Special as well as General Funds.

As an example of why the 10% bill with flexibility is critically needed, let me refer you to the Corrections budget, for our prison system. An 8.1% cut would equal nearly \$26 million. To make such a cut for the rest of this fiscal year would require 3,400 to 4,000 convicts to be let out of prison: 3,400 to 4,000 convicts, who are not approved for parole, have not gone through pre-release preparation or training and for whom there are very, very few jobs.

I cannot believe anyone watching this speech on TV or hearing it on the radio would vote to turn 3,400 to 4,000 convicts loose onto civil society, on to the public. That is the most glaring reason the Senate bill needs to be passed.

Further, the 10% bill would allow smaller cuts in MAEP and K-12 education than current law, as I would use my discretion to that end.

Again experience shows the managers and directors of department, agencies and schools need to know this week, at the latest, the amounts of their reductions so they can make the changes required to achieve that amount of savings. And, it's imperative that agencies receive lump sum appropriations and be taken out from under the State Personnel Board in order to effectively manage these necessary cuts for the current fiscal year and FY 11.

None of this will be easy, but every day that goes by makes it even more difficult.

Let me close on this subject by saying current law would not produce an acceptable answer in implementing these required budget cuts. But the only choices are current law, the Senate bill or for the Legislature to make the cuts. If the Legislature wants to enact the needed \$200-plus million in cuts, that would be fine with me, but it would take a long time when time is what the schools, departments and agencies don't have.

This is why it seems the only reasonable way forward is the 10% flexibility bill.

We have some really difficult budget issues, and it's no fun talking about them in a speech. However, we all know our job is to face the facts and deal with them the best way we can.

And I have to tell you: I believe next year's budget will be at least as hard, if not harder, because all the federal stimulus money will be gone.

All that said; let me close by telling you I'm bullish about what's around the corner for our state. I'm optimistic that soon Mississippi will be leading the country out of this recession.

This global recession, tough as it is, strikes me as just a break in the economic momentum our state had until mid-2008. It's knocked us back, but it hasn't knocked us down.

The fact that state revenue is a lagging economic indicator, that recovers more slowly than the real economy, plus the hundreds of millions of federal stimulus dollars that will disappear over the next year or so, combine to mean the state budget won't get well until long after the real economy in Mississippi is growing again.

While you state officials and I will still be wrestling with very difficult budgets as long as I'm around as Governor, I predict our people, our businesses . . . Mississippi's real economy will see a lot of good things happen this year and next.

You know this is the day we celebrate Reverend Martin Luther King's birthday. He had a dream about America and our people. His "I Have a Dream" speech is one of the most famous and most quoted in the English language.

Our little visit tonight will never be viewed in that league, but we should all have a dream for Mississippi's future.

I believe a time is fast approaching when mothers and grandmothers in our state will see their children and grandchildren staying in Mississippi to make their careers and their futures because Mississippi will be the best place, the place that offers the best opportunities to be productive, have a successful career and a great quality of life for their families. That day is not far off.

Twenty-ten is the year we will help lead America out of this global recession; the year when we pick up where we left off before this recession sidetracked our growing economy and rising incomes.

We can and will out perform the national economy. We were doing it before this global recession, and we'll be doing it again soon.

My advice: Mississippi, believe in it.

Thank you all, and God bless you and your families, our state and our country.
God Bless America.

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